

FRIENDS OF NGONG ROAD
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

**FRIENDS OF NGONG ROAD
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YEARS ENDED DECEMBER 31, 2013 AND 2012**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of Ngong Road
Edina, Minnesota

We have audited the accompanying financial statements of Friends of Ngong Road (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Friends of Ngong Road

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of Ngong Road as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 1, 2014

**FRIENDS OF NGONG ROAD
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

| | 2013 | 2012 |
|-----------------------------------|--------------|------------|
| ASSETS | | |
| Cash | \$ 236,959 | \$ 135,660 |
| Investments | 820,697 | 683,113 |
| Inventory | 9,331 | 1,918 |
| Pledges Receivable, Net | 23,980 | 21,461 |
| Other Assets | - | 678 |
| | \$ 1,090,967 | \$ 842,830 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Deferred Revenue | \$ 2,750 | \$ - |
| NET ASSETS | | |
| Unrestricted: | | |
| Board Designated Endowment Funds | 820,697 | 683,113 |
| Undesignated | 267,520 | 159,717 |
| Total Net Assets | 1,088,217 | 842,830 |
| Total Liabilities and Net Assets | \$ 1,090,967 | \$ 842,830 |

See accompanying Notes to Financial Statements.

**FRIENDS OF NGONG ROAD
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | <u>2013</u> | <u>2012</u> |
|---------------------------------|---------------------|---------------------|
| | <u>Unrestricted</u> | <u>Unrestricted</u> |
| SUPPORT AND REVENUE | | |
| Contributions | \$ 739,186 | \$ 609,764 |
| In-Kind Donations | 23,681 | 22,919 |
| Investment Income | 84,135 | 66,522 |
| Total Support and Revenue | <u>847,002</u> | <u>699,205</u> |
| EXPENSE | | |
| Program Services | 569,857 | 561,853 |
| Management and General | 16,094 | 25,432 |
| Fundraising | 15,664 | 5,716 |
| Total Expense | <u>601,615</u> | <u>593,001</u> |
| INCREASE IN NET ASSETS | 245,387 | 106,204 |
| Net Assets - Beginning of Year | <u>842,830</u> | <u>736,626</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,088,217</u> | <u>\$ 842,830</u> |

See accompanying Notes to Financial Statements.

**FRIENDS OF NGONG ROAD
STATEMENTS OF FUNCTIONAL EXPENSE
YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | 2013 | | | 2012 | | | | |
|----------------------------|---------------------|---------------------------|------------------|-----------------------|---------------------|---------------------------|-----------------|-----------------------|
| | Program Services | Management and General | Fundraising | Total All Services | Program Services | Management and General | Fundraising | Total All Services |
| Program Disbursements | \$ 537,772 | \$ - | \$ - | \$ 537,772 | \$ 535,957 | \$ - | \$ - | \$ 535,957 |
| Business Expenses | - | 6,349 | 6,056 | 12,405 | - | 5,041 | 3,171 | 8,212 |
| Cost of Goods Sold | 9,173 | - | - | 9,173 | 9,372 | - | - | 9,372 |
| Donated Goods and Services | 10,870 | 2,438 | 9,608 | 22,916 | 14,842 | 5,532 | 2,545 | 22,919 |
| Facilities and Equipment | - | - | - | - | - | - | - | - |
| Travel and Meetings | 1,965 | - | - | 1,965 | 1,553 | - | - | 1,553 |
| Bad Debts | 5,543 | - | - | 5,543 | - | 6,256 | - | 6,256 |
| Accounting and Tax | - | 7,307 | - | 7,307 | - | 7,662 | - | 7,662 |
| Miscellaneous | 4,534 | - | - | 4,534 | 129 | 941 | - | 1,070 |
| Total Expense | <u>\$ 569,857</u> | <u>\$ 16,094</u> | <u>\$ 15,664</u> | <u>\$ 601,615</u> | <u>\$ 561,853</u> | <u>\$ 25,432</u> | <u>\$ 5,716</u> | <u>\$ 593,001</u> |
| | <u>95%</u> | <u>3%</u> | <u>2%</u> | <u>100%</u> | <u>95%</u> | <u>4%</u> | <u>1%</u> | <u>100%</u> |

See accompanying Notes to Financial Statements.

**FRIENDS OF NGONG ROAD
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 245,387 | 106,204 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities: | | |
| Realized and Unrealized Gain on Investments | (45,191) | (46,947) |
| Change in Current Assets and Liabilities: | | |
| Inventory | (7,413) | 1,190 |
| Pledge Receivables | (2,519) | 2,785 |
| Other Assets | 678 | (153) |
| Deferred Revenue | 2,750 | (2,207) |
| Net Cash Provided by Operating Activities | <u>193,692</u> | <u>60,872</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investments | (127,835) | (315,198) |
| Proceeds from Sale of Investments | 35,442 | 244,078 |
| Net Cash Used by Investing Activities | <u>(92,393)</u> | <u>(71,120)</u> |
| NET INCREASE (DECREASE) IN CASH | 101,299 | (10,248) |
| Cash - Beginning of Year | <u>135,660</u> | <u>145,908</u> |
| CASH - END OF YEAR | <u>\$ 236,959</u> | <u>\$ 135,660</u> |

See accompanying Notes to Financial Statements.

**FRIENDS OF NGONG ROAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Purpose

The mission of Friends of Ngong Road (the Organization) is to provide education and support for Nairobi children living in poverty whose families are affected by HIV/AIDS so they can transform their lives. The Organization pairs each sponsor with a specific child allowing a mutually beneficial relationship to develop.

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting.

Financial Statement Presentation

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or the passage of time.

Permanently Restricted – Those resources subject to a donor-imposed restriction that they be maintained permanently. At this time the Organization has no such permanently restricted resources.

Contributions

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor-restricted contributions are reported as increases in temporary or permanently restricted net assets, depending on the nature of the restrictions. When these restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all cash and other highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

At times, cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

**FRIENDS OF NGONG ROAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Organization carries its fixed income and equity funds at fair value and realized and unrealized gains and losses are reflected in the statements of activities.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Conditional pledges are not included as support until such time as the conditions are substantially met. At December 31, 2013 and 2012, an allowance in the amount of \$2,670 has been recorded.

Functional Allocation of Expense

Expenses not directly identifiable by function are allocated based on the best estimates of management.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates used.

Tax Exempt Status

The Organization has tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The Organization has adopted guidance in the income tax standard regarding the recognition of uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. During 2013 and 2012, the Organization did not have any uncertain tax positions.

The Organization's tax returns are subject to review and examination by federal, state and local authorities. The tax returns for the years 2010 through 2012 are open to examination by federal, local and state authorities.

FRIENDS OF NGONG ROAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Organization follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Organization has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, or that are traded by dealers or brokers in active over-the-counter markets. The Organization has investments of equities and bonds included in Level 1.

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 1, 2014, the date the financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

The Organization has received unconditional promises-to-give from donors during the year. The total balance outstanding on these unconditional promises-to-give was \$26,650 and \$24,131 at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, an allowance in the amount of \$2,670 has been recorded on these pledges.

At December 31, 2013, all outstanding pledges receivable are considered current.

**FRIENDS OF NGONG ROAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 3 INVESTMENTS

The fair market value of investments consists of the following at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|---------------------------|-------------------|-------------------|
| Fixed Income Mutual Funds | \$ 297,900 | \$ 307,946 |
| Equity Mutual Funds | 476,014 | 374,506 |
| Cash Equivalents | 46,783 | 661 |
| Total | <u>\$ 820,697</u> | <u>\$ 683,113</u> |

Investment income consists of the following at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|------------------------|------------------|------------------|
| Interest and Dividends | \$ 38,944 | \$ 19,575 |
| Realized Gain | 5,171 | 36,468 |
| Unrealized Gain | 40,020 | 10,479 |
| Total | <u>\$ 84,135</u> | <u>\$ 66,522</u> |

NOTE 4 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization values all other assets and liabilities, refer to Note 1 – Summary of Significant Accounting Policies.

The Organization's mutual funds measured at fair value on a recurring basis as of December 31, 2013 and 2012 were classified as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>2013 Total</u> |
|---------------------------|-------------------|----------------|----------------|-------------------|
| Fixed Income Mutual Funds | \$ 297,900 | \$ - | \$ - | \$ 297,900 |
| Equity Mutual Funds | 476,014 | - | - | 476,014 |
| Total | <u>\$ 773,914</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 773,914</u> |

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>2012 Total</u> |
|---------------------------|-------------------|----------------|----------------|-------------------|
| Fixed Income Mutual Funds | \$ 307,946 | \$ - | \$ - | \$ 307,946 |
| Equity Mutual Funds | 374,506 | - | - | 374,506 |
| Total | <u>\$ 682,452</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 682,452</u> |

**FRIENDS OF NGONG ROAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 5 ENDOWMENT

The purpose of the Organization's Board-designated endowment is to provide for future spending needs while meeting current spending needs. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization has no donor-restricted endowment funds or donor-designated endowments as of December 31, 2013 or 2012.

Board-designated endowment fund activity for the years ended December 31, 2013 and 2012 is as follows:

| | |
|---|--------------------------|
| Endowment Net Assets, January 1, 2012 | \$ 565,046 |
| Contributions | 51,545 |
| Investment Income | <u>66,522</u> |
| Endowment Net Assets, December 31, 2012 | 683,113 |
| Contributions | 53,449 |
| Investment Income | <u>84,135</u> |
| Endowment Net Assets, December 31, 2013 | <u><u>\$ 820,697</u></u> |

Investment Objectives and Strategies

The general investment philosophy is to achieve a long-term minimum return averaging at least the spending rate of 5% plus inflation, fees and costs. Returns experienced in excess of the need provide for the long-term growth of the Endowment. The overall level of risk in the Endowment portfolio will be primarily mitigated by attention to asset allocation. The focus is on overall portfolio risk, not risk related to the specific asset classes.

Spending Policy

The purpose of the Endowment Fund is to provide funding, in perpetuity, for programs of the Organization. The amount of this funding each year, referred to as the spending allowance is determined by spending rate. The board does not anticipate spending from the endowment until 2015. After 2015, the board of directors has selected a spending rate of 5% as being appropriate for sustaining the purchasing power of the Endowment and yet still providing the funding for which the Endowment was established. This spending rate will be reviewed periodically in light of evolving trends with respect to investment returns and the rate of inflation. Adjustments will be made when appropriate. When considering the investment performance of the Endowment, the directors will consider the total returns of the Endowment, including dividends of stock, interest on fixed-income securities, and capital gains, both realized and unrealized.

**FRIENDS OF NGONG ROAD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 6 RELATED PARTY TRANSACTIONS

The Organization's sister organization, Ngong Road Children Association, operates in Kenya. The boards of both organizations work together to ensure the program in Kenya is effective and well-managed, and that donors are satisfied and supportive. The Organization remitted a total of \$537,772 and \$535,957 to Ngong Road Children Association during the years ended December 31, 2013 and 2012, respectively.